Islamic banking: a study in Singapore

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Establishes that, in Singapore, which has a minority of Muslims in its population, both Muslims or non-Muslims are generally unaware of the culture of Islamic banking. Also the two separate groups have different attitudes towards the Islamic banking movement, with the degree of difference depending on the nature of the respective matter put to them. For example, when asked what they would do if an Islamic bank did not make sufficient profits to make a distribution in any one year, 62.1 per cent of Muslims said they would keep their deposits within the Islamic banking movement, while 66.5 per cent of non-Muslims said they would withdraw their deposits. In relation to bank selection criteria, there was general accord as between Muslims and non-Muslims on the rating of the various criteria. Five significant differences were noted, the most relating to "being paid higher interest on savings". The desire to be paid higher interest was far stronger with non-Muslims.

Introduction

While the amount of published information concerning Islamic banking principles and their application in Muslim countries continues to grow, relatively little relates to the application of the same principles in countries which have small populations of Muslims. This gap will possibly narrow over the years as Muslim banking becomes even more internationalized and forms part of the financial scene in those countries in which Muslims are in the minority.

One country, which has a minority of Muslims in its population, is Singapore. In the 1990 census, there were about 350,000 Muslims in the resident population of some 2.3 million. Even though there is such a small number of Muslims living in Singapore, it is possible that Islamic banking will be introduced into the country in the not too distant future. This possibility arises for two main reasons. First, neighbouring Malaysia and Indonesia have already successfully introduced Islamic banking into their financial services sector. As Singapore is a major provider of financial services in South East Asia, to compete for Muslim sourced deposits on an equal basis would require Islamic banking to be made available in Singapore. Second, Singapore's Finance Minister, in mid-June 1994, announced that commercial banks[1] would be permitted, if they felt it was viable to do so, to set up an Islamic banking operation.

There are a range of matters which any local bank will have to consider in deciding whether to start up a local Islamic banking operation. While, possibly, all or almost all of Singapore's 350,000 Muslims would support any Islamic banking operation, that number of potential customers may be considered as being too small for a viable operation, especially if several banks decide to enter the market. If the number of resident Muslims is considered to be too small to create a viable operation, local banks may wish to establish if non-Muslims view Islamic banking in a positive way and, if so, establish the likely support which they would give.

The comments and observations above raise a number of questions. For example, in countries where Muslims are in the minority; first, "to what extent are local people aware of the culture of Islamic banking?"; second, "what is the attitude of local people towards Islamic banking?"; and third, "what are the bank selection criteria of local people?" By sampling both the Muslim minority and the non-Muslim majority in such countries, appropriate comparisons can be made.

Answers to these questions should prove invaluable to any bank which is considering setting up an Islamic banking operation in a country which has a small population of Muslims.

Immediately following this introduction, there is a review of the pertinent literature, this covering the culture of Islamic banking, attitudes towards Islamic banking and the bank selection process. Then, the objectives of this study are listed and an explanation provided of the methodology that was used. The results are thereafter presented, followed by conclusions which, among other things, contain general comments about the results obtained. The present research produced a number of interesting ideas for future studies and these are described in the final part of this paper.

Literature survey

A review of the literature established an ideal reference source of materials and research writings concerning Islamic Banking, even though this merely covered the decade of the 1980s (Ali and Ali, 1994). Using this and other information sources, it was found that a range of published information was available. The information was in the form of PhD dissertations (El-Bdour, 1984; Khan, 1983), books written by leading academics and practitioners (e.g. Homoud, 1985; Shirazi, 1990), published research in the form of reports (e.g. Ahmad, 1987; Iqbal and Mirakor, 1987) and journal articles (e.g. Erol and El-Bdour, 1989; Erol *et al.*, 1990; Shook and Hassan, 1988; and Sudin *et al.*, 1994).

Relevant parts of the above information sources, plus pertinent material from other sources are described in the three-section literature survey below. In the first section,

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the culture of Islamic banking is described; in the second section, attitudes towards Islamic banks are reviewed; and, in the third section, bank selection criteria are described.

The culture of Islamic banking

The Qur'an (Koran), the Muslims' Holy Book, explicitly deals with economic-related matters and how they apply in Islam. The *Sharia'h*, this being the Islamic law of human conduct, is derived from the Qur'an. The *Sharia'h* prohibits what is called "Riba" (i.e. payment over and above what has been lent – which causes the payment of interest or usury to be a wrong). What the *Sharia'h* does not prohibit is profit acquired from a trading activity, the reasoning behind this positive stance being that there is a risk of loss involved in any trading activity. With Riba, in theory, there is no risk of loss. For example, with a conventional fixed-term deposit, all a depositor has to do is wait until the maturity date of the deposit comes along and, if the mandate that he or she gave to the bank was for the repayment of capital and interest, that is what the depositor will get back (in essence, placing monies in a traditional fixed-term deposit involves no risk).

Because of Riba, Islamic banks have had to develop financial products which are not in conflict with the *Sharia'h*. This has resulted in traditional deposit and lending products, which are made available by what can be called "conventional" banks, being restyled so as to satisfy the *Sharia'h*. The task has been achieved by creating a number of special financial products (Ali and Ali, 1994). With each of these products, the parties (i.e. the depositors and the borrowers) can be considered as operating in a partnership to which a risk is attached. Both will receive a rate of return which is based on performance – rather than pay interest or receive interest at a pre-determined rate. The four types of product[2] are briefly described below.

The first product is called "Ijara" and involves a bank purchasing an asset and leasing it to a client. The second product is called "Modaraba" and involves a contract being entered into between an Islamic bank and a client whereby the Islamic bank provides all the capital a client needs for an enterprise. The client receives a share in the profit as compensation for his know-how and management. The third product is called "Musharaka" and it is very similar to "Modaraba". However, with "Musharaka", the client provides a proportion of the capital in addition to management and know-how. The fourth product is called "Murabaha" and involves an Islamic bank purchasing goods, or raw materials, or equipment, or machinery or any other items of economic significance from a third party at the request of a client. These "goods" are then sold by the bank to the client on a spot or deferred payment basis at purchase price plus an agreed profit for the bank (some authors describe this as cost-plus or mark-up financing).

Attitudes towards Islamic banking

Part of the study of Erol and El-Bdour (1989), conducted in Jordan, aimed at establishing the attitude of local people towards Islamic banking. The authors designed nine questions and/or statements which were published in the appendix of their article. On reviewing their results, it appears that the sample was asked to answer each part of every question/statement. The approach may have caused problems in the analysis. For, with some statements (e.g. see their "questions" 3, 5, 7, and 9), respondents were asked to answer by stating "yes" or "no" to each of the four prompts, these being I: "strongly agree", "agree", "disagree" and "strongly disagree"). It appears that some who may have said "no" to the "strongly agreed" prompt may have also have said "no" to the "strongly disagreed" prompt. Irrespective of this observation, the authors interpreted their results and, in so doing, made the following general comments: religious motivation did not appear to play a primary role in bank selection; the opening of new branches was not an important factor in increasing the utilization of financial services provided by Islamic banks; while 39.4 per cent of respondents would withdraw their deposits if an Islamic bank did not generate sufficient profit to make a distribution in any one year, 30.4 per cent would retain their deposits because the Islamic bank could distribute a higher dividend the following year; there was a belief that Islamic banks were not offering sufficient interest free loans which could contribute to solving community problems in a just and efficient manner; the elimination of pre-determined interest rates on loans provided for, say, housing construction, would benefit borrowers; and, if respondents came into an unexpected sum of money, they would predominantly either start a small enterprise or project or place the monies in a profit earning investment.

Because the authors sought answers to each part of their statements/questions, any comparison of the general comments mentioned above with the results of the present study must be treated with caution.

Bank selection criteria

Much has been written since the early 1960s on the theme of the bank selection process

(see, for example, the published articles of Anderson *et al.* (1976); Holstius and Kaynak (1995); Kaynak (1986); Kaynak *et al.* (1991); Laroche *et al.* (1986), and the working paper of Chan (1989)) but, for the purposes of the present study, focus will be made on the published works of Erol and El-Bdour (1989), Erol *et al.* (1990) (because, in these two studies, the authors compared the bank selection process in relation to "conventional" and Islamic banks) and Sudin *et al.* (1994) (because these authors compared responses about the bank selection criteria of both Muslims and non-Muslims).

In addition to establishing attitudes towards Islamic banking, Erol and his co-researchers (1989 and 1990) sought to establish, then compare, the bank selection criteria of customers of conventional and Islamic banks in Jordan. The respondents had to satisfy the researchers criteria that they should maintain a relationship with either a conventional bank or an Islamic bank (i.e. they must not have had a relationship with both types of bank). The researchers' questionnaire contained 20 bank selection criteria. For those who patronized Islamic banks alone, the three most important bank selection criteria were: "the provision of a fast and efficient service", "the bank's reputation and image" and "confidentiality of the bank". The same three factors were of greatest importance to those who patronized conventional banks alone, but in a different sequence, the sequence being: "confidentiality of the bank", "the bank's reputation and image" and "the provision of a fast and efficient service". There were significant differences between the patronizers of the two types of bank as regards pricing policies (these being the availability of credit on favourable terms, lower service charges on cheque accounts and for other services, lower interest charges on loans, higher interest payments on savings accounts – which were significantly more important as regards those who patronized conventional banks). Two other bank selection criteria were found to have significant differences, these being the need for a wide range of services (this was more important for those who patronized conventional banks) and those wanting financial consulting services to be provided (this was more important for those who patronized Islamic banks).

Sudin *et al.* (1994), among other things, sought to establish the relative importance of certain bank selection criteria using a sample of Muslims and non-Muslims, none of whom had to be patronizing an Islamic bank at the time of the study. Twenty-six bank selection criteria were listed in their questionnaire. The respondents lived in three medium-sized towns in Malaysia which had a somewhat equal distribution of Muslims and non-Muslims. The three most important criteria in the bank selection process for Muslims were: first, "the provision of a fast and efficient service"; second, "the speed of transaction"; and third, "friendliness of bank personnel". As regards the non-Muslims, the three most important bank selection criteria were: first, "friendliness of bank personnel"; second, "the provision of a fast and efficient service"; and third, "the reputation and image of the bank".

Published literature has been sourced which explains the culture of Islamic banking, the attitude of Muslims to Islamic banking in a country where Islamic banking has been well developed and the bank selection criteria of people living in countries which have majorities of Muslims in their population.

Objectives

The present research, as mentioned in the introduction, is a study of Islamic banking in Singapore, a country which has a minority of Muslims in its population. More particularly, the study seeks to establish the level of awareness that Singaporeans have in relation to the culture of Islamic banking, the attitude of Singaporeans towards Islamic banking and a ranking of the bank selection criteria of Singaporeans – and for each part of the study, to see if Muslim responses are different from non-Muslim responses. In the context of what is said immediately above, the following three hypotheses were formulated:

1. Muslims, in contrast to non-Muslims, will be more aware of the culture of Islamic banking and, as a consequence, be more aware of the meaning of fundamental terms used in Islam and Islamic banking and finance.
2. Muslims, in contrast to non-Muslims, presently have a different attitude towards Islamic banking.
3. There will be no significant differences between Muslims and non-Muslims in the ranking of the various bank selection criteria.

Methodology

Research design

Survey forms were developed and people who were entering or leaving Singapore's underground system (the MRT) were approached and asked if they would be prepared to complete the questionnaire. Stations in three locations were chosen, namely Bukit Batok in

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the west, Bedok in the east and Aljunied in the north. These districts were chosen as they not only had a station on the MRT railway line, but also had populations of Muslims which were known to be not less than the national percentage[3]. The three districts would also be expected to produce homogeneous groups. For, all the districts are typical of the majority of Singapore in the sense that the people resident therein wholly or predominantly live in public housing. In relation to public housing, according to the 1990 census publication relating to "Households and Housing", 86.2 per cent of Singaporean housing stock consisted of properties built under the government's public housing programme. Moreover, the same publication shows that 85.9 per cent of Singaporeans lived in such residential units. By targeting the three named districts for sampling purposes, a homogeneous group of Singaporeans would be created.

A total of 405 forms were distributed in equal numbers, commencing at 8.00 am, 1 pm and 5 pm on a particular Monday, Wednesday and Saturday using trained undergraduates. Distribution took place in a one week period in the early part of September 1995. People were approached, explaining the nature of the study and asked if they would be prepared to fill in the questionnaire. Thirty-eight filled the form in there and then. Those offering to return the form at a later date were provided with a pre-addressed pre-stamped envelope.

Controls were set up to ensure, as best as possible, that forms were distributed in accordance with the ratio of Muslims to non-Muslims in the over ten-year-old population. This was a relatively easy control to set up as almost all Malays are Muslims, about a quarter of Indians are known to be Muslims, while no Chinese are listed as being Muslims in the 1990 census[4]. Thus, by visually identifying the racial group of each person prior to making an approach, the distribution of survey forms could be controlled.

Instrument

The questionnaire had four sections to it.

The first section listed six terms (namely, Riba, *Sharia'h*, Ijara, Modaraba, Musharaka and Murabaha, all of which have been briefly described in the literature survey section of this paper) which are used in Islam or are used in Islamic banking and finance. The respondents were asked to indicate if they knew what the term meant and, if so, to briefly describe the meaning of each term.

The second section contained a series of statements/questions that were styled on those used by and published at the end of the study of Erol and El-Bdour (1989). Erol and El-Bdour (1989) conducted their study in a country where Islamic banking was established and the population was primarily Muslim. In contrast, Islamic banking was not established in Singapore and, as mentioned in[3], only 15.4 per cent of Singapore's "over ten-year-olds" were found to be Muslims in the 1990 census. As a result of these contrasting circumstances, the statements/questions used by Erol and El-Bdour (1989) had to be reviewed. After this review, statements 1 and 6 and question 9 from their study were deleted, as they were considered not to be relevant for the intended sample. Rephrasing of some of the other questions/statements was needed to make them more appropriate for local people. Also, as all the statements/questions were going to be put to non-Muslims, a further alterative response to each statement/question was needed. As it was believed that a high proportion of non-Muslims would not know the answers to certain statements/questions put to them, the option "I do not know" had to be incorporated (The final set of statements/questions that were put to the sample can be found in Table II). Finally, at the pre-test stage, some local Muslims were upset by a statement which referred to "winnings from a lottery" (see question 8 of Erol and El-Bdour, 1989), saying it was against their religious principles to gamble. Hence, the term "winnings from a lottery" was deleted and a simplified alternative used (see question B7). Another difference between the present study and that of Erol and El-Bdour (1989) was that, in this study, respondents were merely asked which of the offered alternatives best reflected their attitude. This request was considered more appropriate, especially for those statements whereby a respondent had to indicate whether he/she "strongly disagreed", "disagreed", "agreed" or "strongly agreed" with statements which were put to him or her.

The third section contained a list of "standard" bank selection criteria. Over and above the studies of Erol and El-Bdour (1989) and Sudin *et al.* (1994), the past studies of Anderson *et al.* (1976), Kaynak (1986), Laroche *et al.* (1986) and Kaynak *et al.* (1991) were reviewed in order to design this section. The fourth section contained standard demographic questions, such as gender, age and religion.

The sample

There were two sub-groups in the sample: Muslims and non-Muslims. As Muslims were the smaller group, it was decided to seek a minimum number of 30 responses from them. It was then necessary to scale up the number of targeted non-Muslims so that they were in-line with the ratio of non-Muslims to Muslims

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in the "over ten year old" population as quoted[3]. By scaling the 15.4 per cent figure, the number of non-Muslims required to get a proportionate ratio was 165 non-Muslims:30 Muslims.

Altogether, 222 responses were received. After eliminating those which could not be used (for example, they were incomplete), this resulted in 190 forms being available for analysis. The sample characteristics were compared with those appearing in the 1990 census and were generally in line.

With 29 Muslim respondents and 161 non-Muslim respondents (giving a Muslim to total respondent percentage of 15.3 per cent), this is very close to the national percentage of 15.4 per cent.

Results

This section is structured in such a way that it addresses the three hypotheses which were earlier presented as "objectives". It, thus, presents results relating to the culture of Islamic banking, attitudes towards Islamic banking and bank selection criteria.

Analysis

The culture of Islamic banking

This subsection of the analysis sets out to address the first hypothesis which is as follows:

> Muslims, in contrast to non-Muslims, will be more aware of the culture of Islamic banking and, as a consequence, more aware of the meaning of fundamental terms used in Islam and Islamic banking and finance.

Not surprisingly, as shown in Table I, the non-Muslims had little awareness of the meaning of fundamental terms in Islam – with only 0.6 per cent of the answers accurately describing the term Riba and 2 per cent accurately describing *Sharia'h*. When it came to the description of Islamic financial terms, there was a total lack of awareness of the meaning of these.

What is surprising, though, is the general lack of awareness by Muslims of the meaning of Riba and *Sharia'h*, with only 20.7 per cent knowing the meaning of Riba and 31 per cent *Sharia'h*. In the context of Islamic financial terms, no one could explain the meaning of Murabaha, and only one respondent accurately described Ijara, Modaraba and Musharaka.

This result, concerning the very poor awareness of the culture of Islamic banking, may be seen as illuminating to any bank in Singapore which is contemplating setting up an Islamic banking operation. For, any Islamic bank would need to carry out informative advertising to explain the culture of Islamic banking – and/or rely on various Muslim groups to provide explanations of terms used in Islamic banking and finance.

Overall, Muslims were more aware of the meaning of fundamental terms in Islam, although both Muslims and non-Muslims were almost exclusively unaware of the meaning of Islamic financial terms. The first hypothesis, thus, is accepted in the context of fundamental terms in Islam but rejected in the context of Islamic banking and finance terms.

Table I
Knowledge of basic terms in Islam and Islamic banking

Term	Muslim responses *n* = 29 correct	Non-Muslim responses *n* = 161 correct
Riba	6	1
Sharia'h	9	3
Ijara	1	0
Modaraba	1	0
Musharaka	1	0
Murabaha	0	0

Attitudes towards Islamic banking

This subsection of the analysis sets out to address the second hypothesis which is as follows:

> Muslims, in contrast to non-Muslims, presently have a different attitude towards Islamic banking.

As seen in Table II, the answers to question B1 indicate that 22.6 per cent of Muslims were of the opinion that solely religious reasons motivate people to deposit money with Islamic banks and 35.4 per cent of non-Muslims were of the same opinion. Over two-thirds of Muslim respondents said that deposits would be made for a combination of religious and profitability reasons, whereas only 37.9 per cent non-Muslims gave that reason.

For question B2[5], it is seen that 79.3 per cent of Muslims "agreed" that by having further branches, this will encourage more people to use the services of an Islamic bank. In contrast, only 37.2 per cent of non-Muslims were of this opinion. This possibly shows that having an extensive network of Islamic bank branches is seen by Muslims as an encouragement to use Islamic bank services – whereas non-Muslims see a less strong link between the number of branches a bank has and the utilization of the bank's financial services.

With question B3, there were two noticeable differences in responses between the separate groups, these relating to the retention or withdrawal of deposits if an Islamic bank did

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Table II
Attitudes of Muslims and non-Muslims towards Islamic banking

Question	Muslims		Non-Muslims	
	No.	Per cent	No.	Per cent
B1 ***The reasons which motivate people to deposit their money at an Islamic bank are:***				
1 Religious reasons solely	8	22.6	57	35.4
2 Profitability reasons solely	0	0.0	6	3.7
3 Religious and profitability reasons combined	20	70.0	61	37.9
4 I do not know	1	3.4	37	23.0
B2 ***Do you agree that if more branches of Islamic banking institutions open up throughout a country, more people will utilize the services provided by these banks? I:***				
1 Strongly agree	8	27.6	6	3.7
2 Agree	15	51.7	54	33.5
3 Disagree	4	13.8	45	28.0
4 Strongly disagree	0	0.0	8	5.0
5 Do not know	2	6.9	48	29.8
B3 ***In case an Islamic bank announced that it had no profit to distribute on investment and savings deposits for any one year, if you were an depositor, would you:***				
1 Keep the deposit at the same or a different Islamic bank, because placing the deposit with a non-Islamic bank contravenes Islamic principles?	5	17.2	11	6.8
2 Withdraw all deposits at once and switch them to one or more banks which guarantee a return?	6	20.7	107	66.5
3 Remain a depositor at the Islamic bank because it could distribute high profits in subsequent years?	13	44.9	9	5.6
4 Consult relatives and neighbours, then decide what to do?	4	13.8	9	5.6
5 I do not know	1	3.4	25	15.5
B4 ***Do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner? I:***				
1 Strongly agree	12	41.4	10	6.2
2 Agree	13	44.9	71	44.1
3 Disagree	3	10.3	41	25.5
4 Strongly disagree	0	0.0	10	6.2
5 Do not know	1	3.4	29	18.0
B5 ***If I unexpectedly acquired a substantial sum of money, I would:***				
1 Deposit the money in a commercial bank which guarantees a return in accordance with an interest-based system	6	20.7	70	43.5
2 Start up a small enterprise or project which would earn profits	6	20.7	20	12.4
3 Deposit the unexpected sum in an Islamic bank operating in accordance with the profit-loss-sharing system	12	41.4	2	1.2
4 Purchase a larger house	1	3.4	22	13.7
5 Exchange my car for a new and luxurious model	0	0.0	0	0.0
6 Invest the money, but not deposit it into an account at either an Islamic or non-Islamic bank	4	13.8	43	26.7
7 Combination of the above	0	0.0	4	2.5
B6 ***Do you agree that the elimination of pre-determined interest rates charged on loans provided for investment projects, housing construction, purchasing cars and financing on the basis of profit-loss-sharing between the bank and the borrower will be advantageous to the borrower. I:***				
1 Strongly agree	6	20.7	18	11.2
2 Agree	16	55.2	63	29.1
3 Disagree	0	0.0	34	21.1
4 Strongly disagree	0	0.0	6	3.7
5 I do not know	7	20.7	40	24.9

not distribute a profit in any particular year. For, 62.1 per cent of Muslims would leave their deposit at the Islamic bank or transfer it to another Islamic bank, while only 12.4 per cent of non-Muslims would do so. Additionally, 20.7 per cent of Muslims would withdraw their deposit immediately and so would 66.5 per cent of non-Muslims. The natural interpretation of the responses to question B3 is that if an Islamic bank performed poorly in any one year, Muslims would be far more loyal to the Islamic banking movement. However, the withdrawal of deposits, principally by non-Muslims, could create a liquidity problem for an Islamic bank, a problem which would be accentuated if (as shown in these figures) about 20.7 per cent of Muslims were also to withdraw their deposits. Banks located in countries where Islamic banking is established, however, would not be expected to experience such problems. For, established Islamic banks are known to maintain high levels of liquidity. So, in the unlikely event that customer withdrawals were substantial, it is unlikely that an Islamic bank's liquidity position would be seriously threatened. Furthermore, some Islamic banks have been able to get agreements with their shareholders whereby, if bank performance is poor in any one year, the shareholders pass part of their entitlement to those maintaining investment accounts. This action enables those maintaining investment accounts with Islamic banks to receive a return which is comparable to that paid by a conventional bank.

As regards question B4, 86.3 per cent of Muslims "agreed" that interest-free loans would help the community in a just and efficient manner, while 50.3 per cent of non-Muslims were of the same opinion. This divergent opinion may be because Muslims believe in helping their community in general, whereas non-Muslims are more likely to wish to pursue their own personal goals.

With question B5, concerning the receipt of an unexpected sum, again differing attitudes were seen as between the two groups. 41.4 per cent of Muslims said they would deposit the money with an Islamic bank, while only 6.2 per cent of non-Muslims would do so. In contrast, 20.7 per cent of Muslims and 43.5 per cent of non-Muslims said they would place the money with a commercial bank which operated an interest rate-based system. 26.7 per cent of non-Muslims would invest the money, but not in a bank deposit account. These responses (just like the ones to question B3) show that an Islamic bank could expect a far higher level of support from the Muslim population compared with the non-Muslim population. Even so, 20.7 per cent of the Muslim respondents indicated that they would deposit the money with a conventional bank – this may be considered as another disturbing sign for any bank which is considering the setting up of an Islamic banking operation in Singapore.

Question B6 also showed differing opinions as between Muslims and non-Muslims. 75.9 per cent of Muslim respondents agreed that charging for loans on a profit-loss-sharing basis would be advantageous to a borrower (rather than charging at a pre-determined rate of interest), while only 40.3 per cent of all the non-Muslims were of the same opinion.

If a comparison is made of the results of the present study with those of Erol and El-Bdour (1989), many differences would be noted. Take two examples: first, 53.7 per cent of Jordanians were motivated to deposit their money with an Islamic Bank for profitability reasons (in most cases), while none of Singapore's Muslims in the sample gave the same response. Second, if more branches of an Islamic bank were to open, 17.1 per cent of Jordanians agreed that more people would use the services of an Islamic, while 51.7 per cent of Singapore's Muslims gave the same response. Whether these differences arise because Muslims in Singapore have different attitudes towards Islamic banks compared with Jordanian Muslims or whether it is because of the different prompts used in the two separate studies is debatable.

Overall, the attitude of Singapore's Muslims and non-Muslims to Islamic banking is different. Hence, the second hypothesis is accepted.

Bank selection criteria

This subsection of the analysis sets out to address the third hypothesis which is as follows:

> There will be no significant differences between Muslims and non-Muslims in the ranking of the various bank selection criteria.

Criteria ranking

Table III shows that there are some similarities in the ranking of bank selection criteria as between Muslims and non-Muslims. The most important factor to both groups is that the bank should provide a fast and efficient service. The next four factors in relation to Muslims are again mirrored by non-Muslims, with the exception that non-Muslims place much more importance on being given higher interest payments on savings and place less importance on the need to be provided with a wider range of services.

Again, the lowly rated criteria are generally the same for both groups. For example, "influence of relatives", "influence of friends"

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and physical conditions like "counter partitions", "parking space" and "external appearance" were all given low ratings.

In the context of statistically significant differences at $p < = 0.05$, five significant differences were observed in the present study. The greatest difference arose with the criterion: "high interest payment on savings". In view of Riba (a term described in the literature review), Muslims rated this criterion in a relatively low way compared with non-Muslims. The next major difference was with "recommendations of friends". While, in itself, this is not a critical bank selection criterion, the results did show that Muslims were more influenced by friends than their non-Muslim counterparts.

Because, though, five significant differences at $p < 0.05$ level were identified, the third hypothesis is rejected.

As between the present study and those of Erol *et al.* (1989 and 1990) and Sudin *et al.* (1994), certain general observations can be made – bearing in mind that the number of selection criteria for each study was not the same and, hence, certain criteria from the other studies were not included in the present study. Overall, though, whether people were customers of conventional or Islamic banks or whether they were Muslims or non-Muslims, they all generally rated bank selection criteria in the same sequence. Very highly rated in all the studies, including the present one, was the need for a bank to provide a fast and efficient service and confidentiality. Very lowly rated criteria were the influence of third parties (such as friends and family) and the physical conditions inside and outside banks. So, in relation to the bank selection process, there was general agreement between the present study and the results of the other studies mentioned above.

When reviewing significant differences identified, the present study identified five (in relation to 22 bank selection criteria) while Erol and El-Bdour (1989) identified four (in relation to 20 bank selection criteria) and Sudin *et al.* (1994) identified as many as 13 (in relation to 26 bank selection criteria). There were two criteria which were found to be significantly different in the present study which were reported in the other studies. Both the present study and that of Erol and El Bdour (1989) found that it was more important for non-Muslims/customers of conventional banks to earn higher interest payments. When looking at the present study and that of Sudin *et al.* (1994), both studies

Table III
Bank selection criteria

Criteria	Muslims Mean	Muslims Rank	Non-Muslims Mean	Non-Muslims Rank	*F*
Provision of fast and efficient service	1.25	1	1.24	1	0.02
Confidentiality of bank	1.29	2	1.33	3	0.19
Confidence in bank's management	1.31	3	1.40	4	0.57
A wide range of services provided	1.44	4	1.53	6	0.50
Bank's reputation and image	1.46	5	1.46	5	0.01
Friendliness of bank personnel	1.54	6	1.63	8	0.52
Financial counselling provided	1.72	7	1.95	14	1.97
Lower interest charges on loans	1.78	8	1.63	8	0.88
Availability of credit on favourable terms	1.81	9	1.61	7	1.52
Location near my home	1.90	10	1.76	10	0.71
Lower service charges on cheques	1.83	11	1.83	11	0.00
Higher interest payment on savings	1.93	12	1.31	2	26.54*
Reception received at bank	1.96	13	1.89	12	0.21
Overdraft privileges on current account	2.00	14	1.98	15	0.02
Interior comfort	2.04	14	2.37	17	4.78**
Mass media advertising	2.04	16	2.52	20	8.14*
Location near my place of work	2.12	17	1.92	13	1.23
External appearance of bank	2.22	18	2.47	18	2.04
Recommendation of friends	2.30	19	2.94	21	15.57*
Available parking space nearby	2.32	20	2.31	16	0.00
Counter partitions in bank	2.42	21	2.48	19	0.11
Recommendation of relatives	2.48	22	2.97	22	8.06*

Notes:
Ratings were based on a four-point scale, where 1 = very important; 2 = important; 3 = not important; and 4 = of no importance
Significance levels are: * = $p < 0.01$; ** = $p < 0.05$

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found that Muslims looked for a significantly higher degree of interior comfort.

Factor analysis

In line with the analytical style used by Sudhin *et al*. (1994), separate factor analyses, with varimax rotation, were conducted for both Muslims and non-Muslims in relation to their responses to the bank selection statements[6]. Factor analysis aims to reduce the number of statements considered by respondents to a more manageable level by bringing together those statements which seem to measure the same "thing". Those statements which are brought together form a factor. In the present study, the objective of doing this was to see if the same number of factors would be created for both the Muslim and non-Muslim respondents; and to see if the statements within the factors for the two groups were the same.

The results of the factor analyses in this study are presented in Tables IV and V for all the bank selection criteria which had a loading above 0.5. The analyses show that for both Muslims and non-Muslims, seven factor groups were generated, the Muslim responses accounting for 64.4 per cent of variation, while the non-Muslims responses accounted for 87.6 per cent of variation. In regard to the make up of the factor groups, several similarities were noted as between Muslim and non-Muslim respondents. For example, the statements in factor 2 were almost identical as between the two sub-groups, while factor 3 for Muslims and factor 6 for non-Muslims grouped together a somewhat similar set of bank selection statements. In contrast, the other factor groups were dissimilar. Thus, just as seen in Table III, there are some similarities and some differences as between the Muslim and non-Muslim respondents. This finding (viz. that there are factors for Muslims which have different bank selection statements in them compared with non-Muslims) is consistent with the equivalent results in the study of Sudhin *et al*. (1994).

The factor which explains most of the variance is "ambience and advertising" for

Table IV
Factor analysis relating to the bank selection criteria of Muslims

Factor 1 – Ambience/advertising							
Counter partitions in bank	0.63						
External appearances of bank	0.73						
Interior comfort	0.73						
Mass media advertising	0.73						
Factor 2 – Borrowing/convenience							
Credit on favourable terms		0.56					
Financial counselling		0.62					
Location near my place of work		0.58					
Lower interest charges on loans		0.66					
Overdraft privileges		0.79					
Factor 3 – Status							
Bank's reputation and image			0.50				
Confidence in bank management			0.84				
Confidentiality of bank			0.77				
Wide range of services			0.63				
Factor 4 – Conviviality							
Available parking nearby				0.60			
Friendliness of bank personnel				0.54			
Lower service charges on cheques				0.66			
Factor 5 – Third party influences							
Recommendation of friends					0.82		
Recommendation of relatives					0.81		
Factor 6 – Service delivery							
Fast and efficient service						0.87	
Reception received at bank						0.67	
Factor 7 – Convenience/returns							
Higher interest payment on savings							0.74
Location near my home							0.90
Eigenvalue	4.79	2.24	1.94	1.47	1.28	1.24	1.21
Percentage variation	21.8	10.2	8.8	6.7	5.8	5.6	5.5
Cumulative variation	21.8	31.9	40.8	47.4	53.3	58.9	64.4

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Table V
Factor analysis relating to the bank selection criteria of non -Muslims

Factor 1 – Ambience/third party influences							
Available parking nearby	0.56						
Counter partitions in bank	0.73						
External appearance of bank	0.80						
Lower service charge on cheques	0.64						
Recommendation of friends	0.68						
Recommendation of relatives	0.90						
Factor 2 – Borrowing/returns							
Credit on favourable terms		0.83					
Financial counselling		0.63					
Higher interest payment on savings		0.64					
Lower interest charges on loans		0.66					
Overdraft privileges		0.64					
Factor 3 – Service/convenience							
Fast and efficient service			0.83				
Location near my place of work			0.89				
Wide range of services			0.64				
Factor 4 – Internal ambience							
Friendliness of bank personnel				0.84			
Interior comfort				0.81			
Factor 5 – Attraction							
Mass media advertising					0.68		
Reception received at bank					0.92		
Factor 6 – Status							
Bank's reputation and image						0.53	
Confidence in bank management						0.69	
Confidentiality of bank						0.95	
Factor 7 – Convenience							
Location near my home							0.90
Eigenvalue	6.41	3.99	2.26	2.15	1.79	1.63	1.04
Percentage variation	29.1	18.1	10.3	9.8	8.2	7.4	4.7
Cumulative variation	29.1	47.3	57.6	67.3	75.5	82.9	87.6

Muslims and "ambience and third party influences" for non-Muslims. Beyond this, the other factors which accounted for the remaining variance were borrowing/convenience, then status, conviviality, third party influences, service delivery and convenience/returns for Muslims. In comparison, the other factors which accounted for the remaining variance in relation to non-Muslims were borrowing/returns, then service/convenience, internal ambience, attraction, status and convenience.

The observed differences seen in Tables III, IV and V imply that different cultural groups do not wholly view the bank selection process in the same way.

Concluding remarks

Conclusions

This study has established that, while a small proportion of Muslims have an awareness of the culture of Islamic banking, non-Muslims have an almost complete lack of awareness. When reviewing responses in relation to attitudes towards Islamic banks, there were many differences in attitudes as between Muslims and non-Muslims. For example, Muslims were far more of the opinion that religious and profitability reasons motivate people to deposit monies with an Islamic bank; many more were of the opinion that an increase in the number of branches would lead to a greater use of Islamic financial services; more would retain deposits within the Islamic banking movement, even if the Islamic bank at which they deposited their money made no profits in any one year; more strongly agreed that the granting of interest free loans by Islamic banks helped the community in a just and efficient manner; were much more likely to deposit an unexpected sum with an Islamic bank and were much more of the opinion that borrowers benefit by being granted loans that are not charged a pre-determined rate of interest.

In the context of bank selection criteria, there were some similarities in the ranking of

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certain criteria as between Muslims and non-Muslims. However, some statistically significant differences were noted. For example, Muslims placed relatively lower importance on the need to be paid a high rate of interest on their savings. Also, Muslims were influenced by third parties in a greater way than non-Muslims, such third parties being relatives, friends and the media. The factor analyses carried out on the responses of both Muslims and non-Muslims to the various bank selection statements also showed some similarities and some differences.

Implications for banks

There are a number of major implications for local banks which arise from the results of this study. First, it is seen that there is a general lack of awareness of the culture of Islamic banking and, hence, informative advertising campaigns would need to be designed and delivered – and the appropriate cost borne. No doubt, the various Muslim bodies would make a positive contribution towards explaining the culture of Islamic banking to their religious followers. However, banks cannot and should not expect these non-profit making bodies to be the sole or major source of pertinent information.

Second, Islamic banks should aim to be as profitable as or more profitable than conventional banks. For, the results of the present study show that if an Islamic bank does not generate sufficient profits to enable a distribution to take place in any one year, 66.5 per cent of the non-Muslim respondents indicated they would withdraw their deposits, while 20.7 per cent of Muslim respondents indicated they would do likewise. So, an outflow of funds would result if reasonable profits were not made – unless shareholders could be persuaded to pass over part of their entitlement to those maintaining investment accounts.

In any marketing campaign to attract customer accounts, an Islamic banking operation would need to ensure it had the ability to provide a fast and efficient service and promote this point.

General comments

The results of the present study are almost certainly reflective of what would be found in any other study conducted in a country which has a small percentage of Muslims in its population and which does not have any established Islamic banking entities. It would be expected that the results of such research would show that Muslims, in comparison with non-Muslims, whatever their creed or race, would be more aware of the principles of Islam; but, both Muslims and non-Muslims would have little knowledge of the culture of Islamic banking. In a period leading up to one or more banks introducing Islamic banking in countries which did not have any Islamic banking entities, the respective bank(s) would market the Islamic products they intended to offer. In addition, it would be anticipated that various Muslim bodies would provide general explanations about Islamic banking to their religious followers. The result of programmes offered by Muslim bodies should cause Muslims to become very familiar, not only with the principles of Islam relating to banking and finance, but also the general culture of Islamic banking. Non-Muslims should become more aware of Islamic principles which apply in banking and finance and the culture of Islamic banking as a result of general bank marketing. Familiarity with Islamic principles and the culture of Islamic bank would, thus, be expected to increase during the period which leads up to the introduction of Islamic banking in any country.

In the context of attitudes towards Islamic banking, this would be expected to change as people become more familiar with the culture of Islamic banking. The attitude shift may be greater with Muslims as, no doubt, they would be more exposed to the various pertinent principles. For example, at the time that various Muslim bodies are providing explanations about Islamic banking, it is argued that those Muslims in attendance would be strongly encouraged to provide a very high level of support to any Islamic banking operation. Should those Muslims respond positively to this encouragement, this would result in Muslim support being far greater than that reflected in the results of the present study. Also, if non-Muslims were attracted to Islamic banking by marketing campaigns, the level of support from non-Muslims should also become higher.

While the various Muslim bodies would support and encourage the use of any Islamic banking operation, it is unlikely that Singapore's government would do likewise. This would be in contrast to what has been seen in neighbouring Malaysia, a country with an essentially Muslim government and Iran with a wholly Muslim government. Where Islam is entrenched in all aspects of life in certain countries, the introduction of Islamic banking would be far less problematic. For the government in those countries, the various Muslim bodies and the banks would be able to share collectively the task of getting Islamic banking introduced and operating.

In relation to the ranking of the various bank selection criteria, some of these would no doubt change as a result of people having

become more aware of the culture of Islamic banking. For example, third party influences, including media advertising, would be expected to have a far stronger impact on Muslims. The desire by Muslims to be paid a high rate of interest ought to fall. For non-Muslims, the influence of media advertising may become more highly rated as a result of being exposed to informative bank advertising.

Overall, after people have been exposed to the culture of Islamic banking, it would be expected that people's awareness of what Islamic banking involves would increase and their attitude towards this form of banking should change. The shift would be expected to be much greater with Muslims. Likewise with the ranking of the various bank section criteria. Shifts would be expected, more particularly with Muslims.

Future studies

This study did not set out to establish specifically the extent to which Muslims and non-Muslims would support an Islamic banking operation and under what circumstances they may increase their support. Also, the views of pertinent staff employed in the local full licence banks, whether domestic or foreign, concerning Islamic banking and its potential, were not sought. These matters could be addressed in future local studies. Equivalent studies could be conducted in other countries which have minorities of Muslims in their population. Such studies, in the section which assesses "awareness of the culture of Islamic banking", could include investment products as well as lending-based products. In the context of Singapore, an equivalent study to the present one could be conducted, say, two years after Islamic banking has been introduced, presuming it becomes offered. Such a study would either validate or otherwise, the comments made in the final paragraph of section "general comments".

Notes

1 At the time of the study, there were 34 "commercial" banks in Singapore, 12 being local full licence banks and 22 foreign full licence banks, the latter including the Hong Kong and Shanghai Bank, Standard Chartered Bank and Citibank.
2 The four Islamic financial products which are briefly described in this paper are more fully described in the published work of Dixon (1992); Khan and Mirakhor (1987); Nienhaus (1986); Siddiqi (1988); Sudin (1995); Sudin *et al.*, (1994) and Taylor and Evans (1987). These authors also describe other Islamic financial products.
3 The national average of Muslims to total population was reported as being 15.4 per cent in the 1990 census. The following percentages of Muslims to total population in relation to the defined districts were established from pages 50 and 51 of census statistics: Aljunied (16.6 per cent); Bedok (24.3 per cent); and Bukit Batok (19.08 per cent).
4 Statistics from the 1990 census show that, in the over ten-year-old population, 99.6 per cent of resident Malays were Muslims and 27 per cent of resident Indians were Muslims.
5 The questions B2, B4 and B6, besides the possible response "I do not know", respondents were provided with four other prompts: I strongly agree, I agree, I strongly disagree and I disagree. To simplify the analysis of the results in relation to these three questions, those who "strongly agreed" and "agreed" were put in an "agreeing" group while the other respondents were put in a "disagreeing" group.
6 Relative to the number of statements, the number of Muslim responses is rather small and falls well below the normal "rule of thumb" which suggests that there should be three times as many observations as variables. Consequently the results for the Muslim factor structure should be interpreted with care.

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